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SUBJECT: JAPANESE MORNING PRESS HIGHLIGHTS 03/18/08

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3) Prime Minister's Official Residence (Kantei)

Prime Minister's schedule, March 17

NIKKEI (Page 2) (Full)

March 18, 2008

09:40

Wrote his name in the visitors' book at the residence of Prince

Tomohito, who is now in the hospital.

10:01

Met with Chief Cabinet Secretary Machimura, followed by Assistant Deputy Chief Cabinet Secretary Saka.

11:00

Met with Gunma Prefecture Governor Osawa, followed by Vice Environment Minister Tamura and Resources and Energy Agency Director General Mochizuki.

12:30

Government and ruling parties liaison council meeting. Then met with Finance Minister Nukaga.

13:47

Met with Special Advisor to the Cabinet Okuda.

14:37

Met with National Police Agency Director General Yoshimura.

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15:02

Met with Saka and Comprehensive Maritime Policy Administrative Office chief Oba. Then met with Defense Ministry Defense Policy Bureau Director General Takamizawa and Defense Intelligence Headquarters chief Mukunoki and Cabinet Intelligence Director Mitani.

16:02

Met with Mitani, followed by State Minister for Economic and Fiscal Policy Ota, Cabinet Office Policy Officers Fujioka and Matsumoto. Ota remained.

17:04

LDP executive meeting in the Diet.

18:04

Met with Peruvian President Garcia. Then signed a joint statement and held press conference.

19:17

Banquet hosted by Prime Minister Fukuda.

20:44

Arrived at the official residence.

4) Poll: Cabinet support down to 34 PERCENT

YOMIURI (Page 1) (Abridged)
March 18, 2008

The approval rating for Prime Minister Fukuda and his cabinet fell 4.8 percentage points from February to 33.9 PERCENT in a face-to-face nationwide public opinion survey conducted by the Yomiuri Shimbun on Mar. 15-16. The disapproval rating for the Fukuda cabinet was 54.0 PERCENT, up 3.2 points. The Fukuda cabinet's nonsupport rate hit an all-time high since it came into office.

Those who do not support the Fukuda cabinet were asked to pick up to two reasons. In response, 48 PERCENT answered that they cannot appreciate its political stance, topping all other answers. Among other answers, "nothing can be expected of its economic policy" accounted for 38 PERCENT, followed by "'it's unstable" at 27 PERCENT.

Respondents were also asked if they thought the government dealt appropriately with the recent collision of a Maritime Self-Defense Force Aegis destroyer with a fishing boat that has left its two crewmen missing. To this question, 74 PERCENT answered "no."

The current additional rate of provisional taxation on gasoline is to expire at the end of March. In the survey, respondents were asked if they thought it would be better to continue this additional gas taxation after that. To this question, "yes" accounted for 27

PERCENT , down 2 points from February, with "no" at 64 PERCENT , up 2 points.

Meanwhile, the government has asked the Diet to approve its proposal to promote Bank of Japan Vice Governor Toshio Muto to the post of BOJ governor. However, the leading opposition Democratic Party of Japan (Minshuto) disagreed. In this regard, respondents were asked if they supported the DPJ's decision. To this question, "very much" and "somewhat" totaled no more than 25 PERCENT , with "not very

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much" and "not at all" adding up to 59 PERCENT .

In the breakdown of public support for political parties, the ruling Liberal Democratic Party leveled off at 33.1 PERCENT , up 0.5 points. However, the DPJ dropped 2.4 points to 17.6 PERCENT .

5) LDP Secretary General Ibuki: "Plummeting support rates due to lack of leadership"

TOKYO (Page 2) (Full)
March 18, 2008

Liberal Democratic Party (LDP) Secretary General Ibuki yesterday at a press conference made this comment about the trend of falling support rates for the Fukuda Cabinet in every opinion poll: "The major reason for the lack of support is probably because the perception of a lack of leadership." In his view, the public are harboring doubts about the Prime Minister's leadership.

Ibuki, having in mind such factors as the lopsided Diet where the opposition camp controls the Upper House making it difficult to select the governor of the Bank of Japan, pointed out: "Since our camp does not have a majority in the Upper House, we cannot smoothly steer the government. Looking at it from the eyes of the public, the situation is a mess. Under the current situation in the Upper House, it would be the same no matter who was in charge."

6) Sympathy budget to expire shortly

YOMIURI (Page 4) (Abridged)
March 18, 2008

The standoff between the ruling and opposition parties in the divided Diet, where the ruling camp controls the lower chamber and the opposition camp dominates the upper chamber, is casting a shadow on Japan's foreign relations.

On the morning of Mar. 13, the leading opposition Democratic Party of Japan (Minshuto) held a meeting of its foreign affairs and defense division. In the meeting, DPJ lawmakers focused their discussion on the propriety of a special agreement for a three-year extension of Japan's host nation support for the stationing of U.S. forces in Japan ("omoiyari yosan" or literally "sympathy budget").

"Why do we have to take care of such a thing," one DPJ member said. "This is even more terrible than the road-related tax revenues," another participant said.

In the meeting, a senior official of the Defense Ministry explained the breakdown of personnel costs for Japanese employees who are working at U.S. military bases on the Japanese government's sympathy budget payroll. DPJ lawmakers voiced their criticism.

The Defense Ministry revealed spending related to recreational facilities for the U.S. military, including 76 bartenders (annual average income at 4.31 million), 47 golf course maintenance workers (4.25 million yen), and 14 recreation specialists (4.51 million yen).

In the sympathy budget's past two extensions, the DPJ called for eliminating wasteful spending. Even so, the DPJ agreed to extend it, taking the position that the Japan-U.S. relationship is the most

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important bilateral relationship. This time, however, Keiichiro Asao, the defense minister in the DPJ's shadow cabinet, implied the DPJ's intention to raise an objection. "I'm not saying Japan will do anything just because there is a request from the U.S.," Asao said.

The special agreement is a kind of treaty, and the House of Representatives' decision comes before the House of Councillors' decision under the Constitution. It will come into effect within 30 days after the House of Representatives' approval. However, the Diet has yet to enter into deliberations in the aftermath of confrontation between the ruling and opposition parties.

The special agreement, as well as the current rate of provisional taxation on gasoline, is to expire at the end of the current fiscal year. After that, the Japanese government's spending, such as personnel costs and utilities charges, will lose its legal grounds. One senior Defense Ministry official said, "We would have to ask the United States to pay for the time being."

7) Prime Minister Fukuda faces stalemate over appointment of new BOJ governor

MAINICHI (Page 2) (Full)
March 18, 2008

Yoshiaki Nakagawa, Katsumi Kawakami

With the incumbent Bank of Japan (BOJ) governor's term of office set to expire on March 19, Prime Minister Yasuo Fukuda yesterday sounded out the major opposition Democratic Party of Japan (DPJ) about the idea of keeping incumbent Governor Toshihiko Fukui and Deputy Governor Toshiro Muto in their posts instead of promoting Muto to the governor's post. But the DPJ refused to accept this proposal. Despite turmoil in the market over the yen appreciation and falling stock prices, Fukuda allowed one day to go to waste without being able to formally present any breakthrough measure. It is becoming more likely that the governor's post will be left vacant.

"It is not that I did so to create a vacuum." Making this comment to the press yesterday evening, Fukuda revealed his frustration as the term of the incumbent BOJ governor is to expire shortly.

The idea Fukuda showed to the DPJ was to not appoint someone new to the BOJ's top position. According to an informed source, Fukuda's proposal to the DPJ was a two-step concept. Specifically, the government would (1) formally reappoint incumbent BOJ Governor Fukui as governor for another five years and (2) keeping Fukui in the post on a provisional basis by extending his term of office as BOJ governor by amending the BOJ Law.

According to some in the government and the ruling parties, this proposal implied that Fukuda still dwelled on the idea of appointing Muto as BOJ governor, given that he had openly stated that the proposal would be "the best of all." The proposal would leave room to appoint Muto as BOJ chief in the future as long as he remains in the post of deputy governor, even if Fukui were to stay on as BOJ chief because his remaining in the post is seen as a provisional measure.

Because of the DPJ's opposition to the proposal, the government and the ruling camp decided not to formally present it to the Diet yesterday. If the proposal to reappoint Fukui as BOJ governor is

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rejected in the Upper House, the post of BOJ governor will be left vacant on March 19. In the Upper House, the DPJ and other opposition parties are certain to oppose the idea of revising the BOJ Law so as to provisionally extend Fukui's term of office. In order to revise the BOJ Law, the ruling bloc needs to take a re-vote on the idea in the Lower House, but given that the deliberations on tax revenues for road projects are coming to a climax in the Diet, this situation will likely force Fukuda to have a full showdown with the opposition bloc with his course of action at stake.

If the post of BOJ governor is left vacant, Masaaki Shirakawa, whose

appointment as deputy BOJ governor has been confirmed, will act as governor, but if that happens, Fukuda will be certain to see his grip on power weaken.

In the Prime Minister's Official Residence (Kantei), the staff is looking for a "third candidate," but this effort seems to have hit a snag. According to a senior ruling Liberal Democratic Party (LDP) member, the staff for Fukuda informally sounded out Masayuki Oku, president of Sumitomo Mitsui Banking Corporation and chairman of the Japanese Bankers Association, about the idea of assuming the post of BOJ governor, but Oku refused.

8) Vacancy in BOJ governor post highly likely as government puts off presenting new candidate to Diet

ASAHI (Page 1) (Excerpts)
March 18, 2008

The government yesterday postponed presenting to the Diet its new candidate to replace Bank of Japan Governor Toshihiko Fukui, whose term in office will expire tomorrow. The government yesterday sounded out the main opposition Democratic Party of Japan (DPJ or Minshuto) about altering its initial candidate, Deputy Governor Toshiro Muto, for the BOJ governor post, which had been rejected by the House of Councillors, while retaining Muto in his current post. However, the government failed to obtain consent on its proposal from the DPJ. The possibility has now become stronger that the top job at the central bank will be vacant. If that is the case, Masaaki Shirakawa, a professor at Kyoto University graduate school, the nomination of who was approved by the two Diet chambers as a new deputy governor, will serve as the BOJ governor (until the new governor is appointed).

From Sunday night to Monday, on the behalf of Prime Minister Yasuo Fukuda, Liberal Democratic Party Secretary General Bunmei Ibuki and Diet Affairs Committee Chairman Tadamori Oshima telephoned DPJ Secretary General Yukio Hatoyama to sound out the opposition party

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about reappointing Fukui or Muto. Yesterday afternoon, Ibuki called Hatoyama and told him: "If Muto is retained in his present post, the new governor might be chosen from business leaders." However, the ruling camp never mentioned the name of a business leader. Therefore, this nomination idea came to nothing.

The reason why the LDP proposed keeping Muto in his current post is that Fukuda has not changed his view that Muto is the best choice.

Fukuda's pet opinion is that cooperation between fiscal and monetary sectors is indispensable for suitable economic management. He is concerned that whether the central bank can be managed well only by BOJ officials and academics, excluding Muto, a former administrative vice finance minister, who is well versed in financial affairs.

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If the government's nominations are again rejected, the political base of the Fukuda government will be greatly shaken. Fukuda wants the DPJ's guarantee if he completely excludes Muto from his nomination list of the BOJ governor and a deputy governor. However, since he cannot see thorough how the DPJ will act, he becomes increasingly doubtful and suspicious about the largest opposition party.

9) Government unable to present new nomination for BOJ governor to Diet before March 17; BOJ governorship likely to be left unfilled

MAINICHI (Top play) (Abridged slightly)
March 18, 2008

The government and ruling camp gave up yesterday on a plan to submit to the Diet that same day a nomination for the successor to Bank of Japan Governor Toshihiko Fukui, whose term expires on March 19. In the wake of the disapproval by the Upper House of a plan to promote Deputy BOJ Governor Toshiro Muto, a former vice-finance minister, to the top BOJ post, the government and ruling bloc began coordination

with the Democratic Party of Japan before presenting another plan to the Diet. But they eventually decided that obtaining the party's understanding that day was difficult. A senior official admitted last night that the government might not be able to present a nomination to the Diet before March 19. The view is gaining ground in the government and ruling bloc that creating a vacuum in the BOJ governorship will be inevitable.

Following the DPJ's rejection of a plan to keep Fukui as BOJ governor and Muto as deputy governor, Lower House steering committee chairman Takashi Sasagawa and his Upper House counterpart Takeo Nishioka discussed yesterday a response to a possible presentation of a new list of nominees by the government. With the expiration of Fukui's tenure near at hand, they requested the government to make a final decision by 6:00 p.m. In response, the government replied last evening that presenting a new plan within the day was difficult.

Last-ditch negotiations are likely to continue today between the ruling and opposition camps. The focus is whether or not the government and ruling bloc can coordinate views with the DPJ before a start of formal procedures for Diet approval on the matter. The government seems to have difficulty finding Muto's replacement.

If the presentation of a new plan slips to March 18 or later, a failure to obtain approval of the both houses of the Diet by March 19 would end up creating a vacancy in the BOJ governorship. In such a case, Kyoto University Professor Masaaki Shirakawa, who has been endorsed by the two Diet chambers to become a new BOJ deputy governor, will serve as acting BOJ governor.

DPJ Secretary General Yukio Hatoyama yesterday criticized the government's response, saying: "Determining the new BOJ governor by March 19 has now effectively become impossible. What is the government doing?" Meanwhile, Prime Minister Yasuo Fukuda commented to reporters at his office last night: "The matter cannot be decided by the ruling camp and the government alone. Any nomination could be voted down in the Diet. We have to handle the matter carefully." The prime minister admitted that the government is unable to read the DPJ's moves.

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10) Scenario of "Acting governor Shirakawa" taking on realistic touch ahead of expiration of incumbent's term tomorrow; Government to be pressed with tight schedule

NIKKEI (Page 2) (Excerpts)
March 18, 2008

The government yesterday postponed presenting to the Diet a plan for nominating new candidates for the posts of governor and deputy governor at the Bank of Japan (BOJ). If it wants to appoint a new governor by March 19, when the term of office of incumbent governor and vice governor expires, the government will be pressed with an extremely tight schedule.

In appointing a new governor and deputy governors, the following process is taken: The government first presents candidates' names to the ruling and opposition parties; the steering committees of the two houses of the Diet hold hearings with the candidates regarding their policy stances and then question-and-answer sessions; and then both Diet chambers take votes in their plenary sessions. If the government submits a new plan today, there will be these only two options, in order to obtain Diet approval before the incumbents' term of office runs out: (1) Holding hearings on the 18th and plenary sessions on the 19th; or (2) holding hearings and plenary sessions on the 19th. Either way, the government will be pressed with a tight schedule.

11) Appointment of new BOJ governor: Concerns mounting about difficulty in managing administration and prime minister's declining grip on administration

YOMIURI (Page 4) (Excerpts)
March 18, 2008

The government has decided to postpone the presentation of its nomination for the successor to Bank of Japan Governor Toshihiko Fukui until March 18 or later. Given the situation, a sense of alarm is growing in the government, with one person saying, "Prime Minister Fukuda will find it even more difficult to run his administration." Support rates for the Fukuda cabinet are tumbling due to the pension record mess and the recent collision of an Aegis destroyer. If the "control tower" of the nation's monetary policy remains vacant due to the government's failure to determine the new BOJ governor by March 19, the Fukuda administration will suffer a serious blow.

In a recent Yomiuri Shimbun opinion poll, the rate of support for the Fukuda cabinet dropped below 35 PERCENT .

Asked by reporters for any means to boost his support rate, Prime Minister Yasuo Fukuda said last night: "I am not aiming at such a thing. I will just do things steadily as necessary."

LDP Secretary General Ibuki took the following view last evening on the plummeting support rate: "(The prime minister) has not been able to run the administration smoothly because the ruling coalition does not hold a majority in the Upper House. The public thinks that his administration is slow to take action and that (the prime minister) lacks leadership. The question of determining the new Bank of Japan governor must be settled early."

In addition to the subject of the BOJ governorship, the provisional

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gasoline tax rate expires on March 31. Despite that, there is no prospect for talks between the ruling and opposition camps on revising tax-related bills. The provisionally high gasoline tax rate declining to a lower level on April 1 is now becoming a real possibility.

A midlevel LDP lawmaker said: "I'm concerned that voters will regard the prime minister as a person who cannot decide on anything and he will lose his grip on the administration." Some in the government and ruling bloc have again begun speaking of a "March crisis" for the Fukuda administration.

12) Provisional gas tax rate: LDP having difficulty drafting revision plan, unable to find common settlement line with DPJ

MAINICHI (Page 5) (Full)
March 13, 2008

The Liberal Democratic Party (LDP) is having difficulty revising the bill amending the Special Tax Measures Law, which incorporates an extension of the provisional rate applied to the gasoline tax. Policy Research Council Chairman Sadakazu Taniguchi, who is acting as a point of contact with the Democratic Party of Japan (DPJ or Minshuto), yesterday met with Election Committee Chairman Makoto Koga, a key member of the road policy clique in the Diet, and General Council Chairman Toshihiro Nikai to vet the situation. They found that it would be extremely difficult to respond to the DPJ's call to abolish the provisional rate. While a cut in gasoline prices looking like it may become reality in April, the LDP leadership is forced to undergo cliff-hanger coordination.

Emerging from the talks with Koga, Tanigaki indicated hopes to see this issue make a soft-landing, noting, "We shared the sense of crisis that we must survive March 31." Tanigaki also met with former Prime Minister Yoshiro Mori and former Chairman Mikio Aoki of the LDP Caucus in the Upper House Mikio Aoki. They agreed on the need to throw a pitch of some compromise to the DPJ, but failed to work out specifics.

If the Upper House refuses to put the amendment bill to a vote, the Lower House cannot revote on it. Should that occur, the price of gasoline will be lowered by approximately 25 yen per liter - the portion of the provisional rate, starting on April 1. In the event of the Upper House refuses to take a roll call on the bill, the government and the ruling parties, out of the need to secure fiscal

resources, plan to extend the provisional rate, by voting on the bill once again in late April, based on the article of the Constitution stipulating that if the Upper House makes a decision different from that of the Lower House, the bill becomes a law when passed a second time by the Lower House. However, railroading a bill that is directly related to the household budget would deal a major blow to the LDP in terms of public opinion, according to a person who served as cabinet minister.

The LDP is discussing the possibility of shortening the scope of the extension of the provisional rate from 10 years to five years and reducing the amount of investment secured in the mid-term road consolidation plan from the currently proposed 59 trillion yen. No views supporting a cut in the provisional tax rate, which will lead to a change to the fiscal 2008 budget, have been floated.

Tanigaki yesterday evening conferred on the revision issue with New
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Komeito Policy Research Council Chairman Tetsuo Saito. Saito told reporters, "The DPJ would not respond, unless we come up with a proposal drastic enough to win high scores from the public." He thus indicated his view that it would be absolutely necessary to make a drastic compromise in order to have the bill enacted before the end of the current fiscal year. Tanigaki and Saito agreed on the possibility of the ruling party drafting a revision plan and submitting it to the DPJ. However, no prospect for a revision plan has yet to come into view.

13) DPJ refuses deliberations on highway-related bill, making it difficult to secure Diet approval within fiscal year

NIKKEI (Page 2) (Excerpts)
March 18, 2008

It now seems difficult for the government and the ruling camp to enact a bill amending the Special Taxation Measures Law, which includes a measure to extend the current provisional highway-construction tax rates, by the end of this fiscal year as they had planned. The Democratic Party of Japan (DPJ) is apparently aiming to press the government to dissolve the House of Representatives for a snap election, taking advantage of the expiration of the provisional tax rates at the end of March.

In a meeting of the House of Councillors Diet Affairs Committee chairmen of the Liberal Democratic Party and the DPJ held in the Diet Building yesterday, the LDP suggested holding hearings with the relevant cabinet ministers regarding their policy stances on the 18th, a premise for starting deliberations on the tax legislation, but the DPJ turned it down. Deliberations were essentially postponed to next week or later.

The DPJ yesterday distributed to all members copies of a written request, under the name of Diet Affairs Committee Chairman Kenji Yamaoka, urging them to make thoroughgoing preparations for a possible Lower House election.

Meanwhile, LDP Policy Research Council Chairman Sadakazu Tanigaki yesterday started work to coordinate views in the party on a draft amendment that the ruling camp plans to complete within this week. As part of efforts to find common ground with the DPJ, Tanigaki held a meeting with senior members of the road-policy clique in the Diet, such as Election Committee Chairman Makoto Koga and Executive Council Chairman Toshihiro Nikai, as well as with the DPJ with former Prime Minister Yoshiro Mori and former Upper House Chairman Mikio Aoki. The meeting, however, ended up with the four just expressing cautious views about drastically amending the bill, with no substantive discussion conducted on specifics.

14) Japan concerned about impact of riots on Chinese president's planned visit to Japan

YOMIURI (Page 4) (Full)
March 18, 2008

Protests against China set off by riots in Lhasa of the Tibet

Autonomous Region are spreading around the world. The Japanese government is concerned about the possible impact of the protests on the planned visit to Japan by Chinese President Hu Jintao.

At a news conference yesterday, Vice Foreign Minister Mitoji

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Yabunaka, speaking of the possible impact of the riots on the planned visit to Japan by the Chinese president, emphasized: "Basically, the riots have nothing to do with the visit." The Japanese and Chinese governments plan to formally announce President Hu's visit to Japan possibly by the end of the week. The two governments are making arrangements to set the visit at May 6 or 7. An official familiar with Japan-China negotiations noted: "We don't want to make waves at this point in time in connection with relations with China."

SCHIEFFER